

BUILDING
THE FUTURE



BUILDING
A WELL-MANAGED
GOVERNMENT

Comprehensive Compensation Review

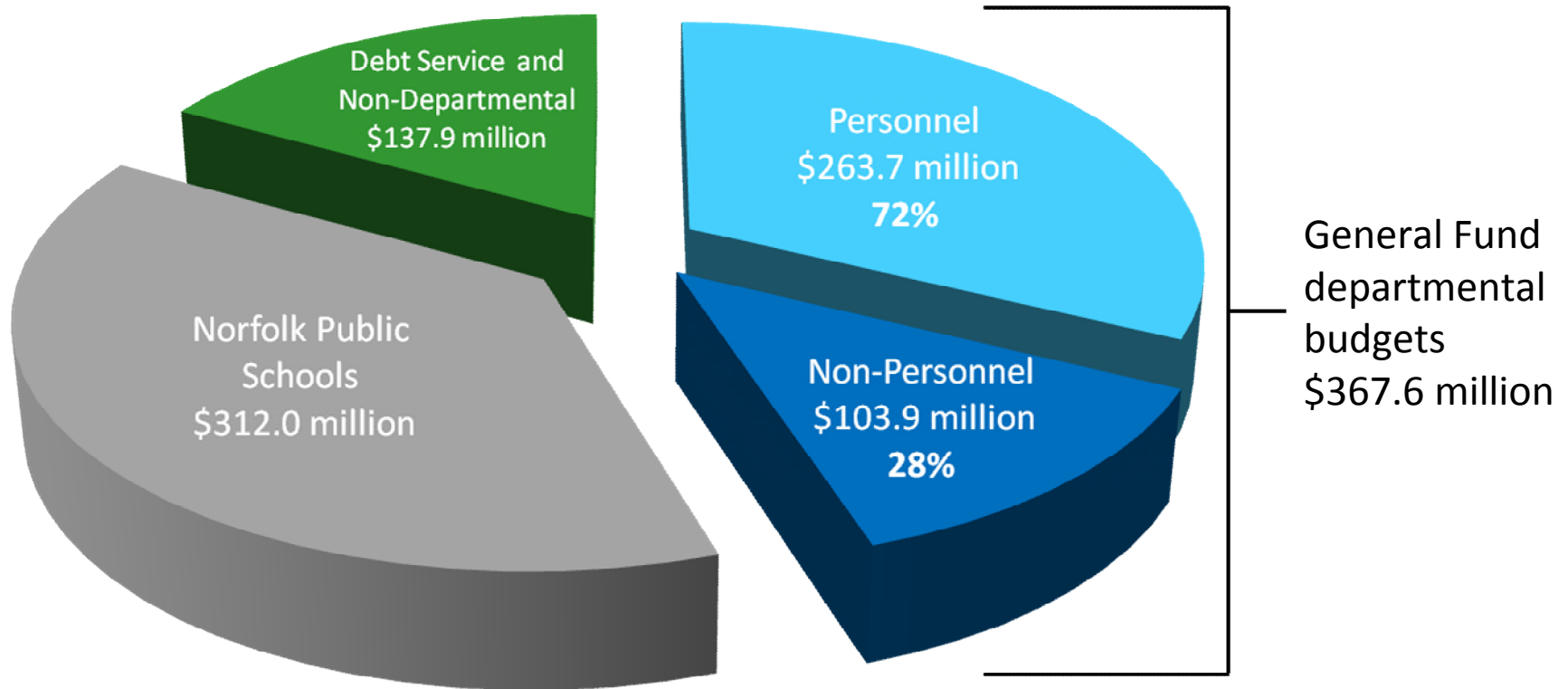
Presented to City Council
July 23, 2013

Purpose of the Discussion

- ▶ Provide City Council with information on the FY 2014 Comprehensive Compensation Review
- ▶ Comprehensive review is intended to strengthen Norfolk's position as a well-managed government and employer of choice
- ▶ The discussion is organized as follows:
 - Introduction and overview of FY 2014 compensation
 - Review of the current salary structure
 - Step-based compensation and alternatives
 - Initiatives that impact retirement benefits
- ▶ No action is required from City Council at this time

Personnel costs make up almost three quarters of departmental budgets

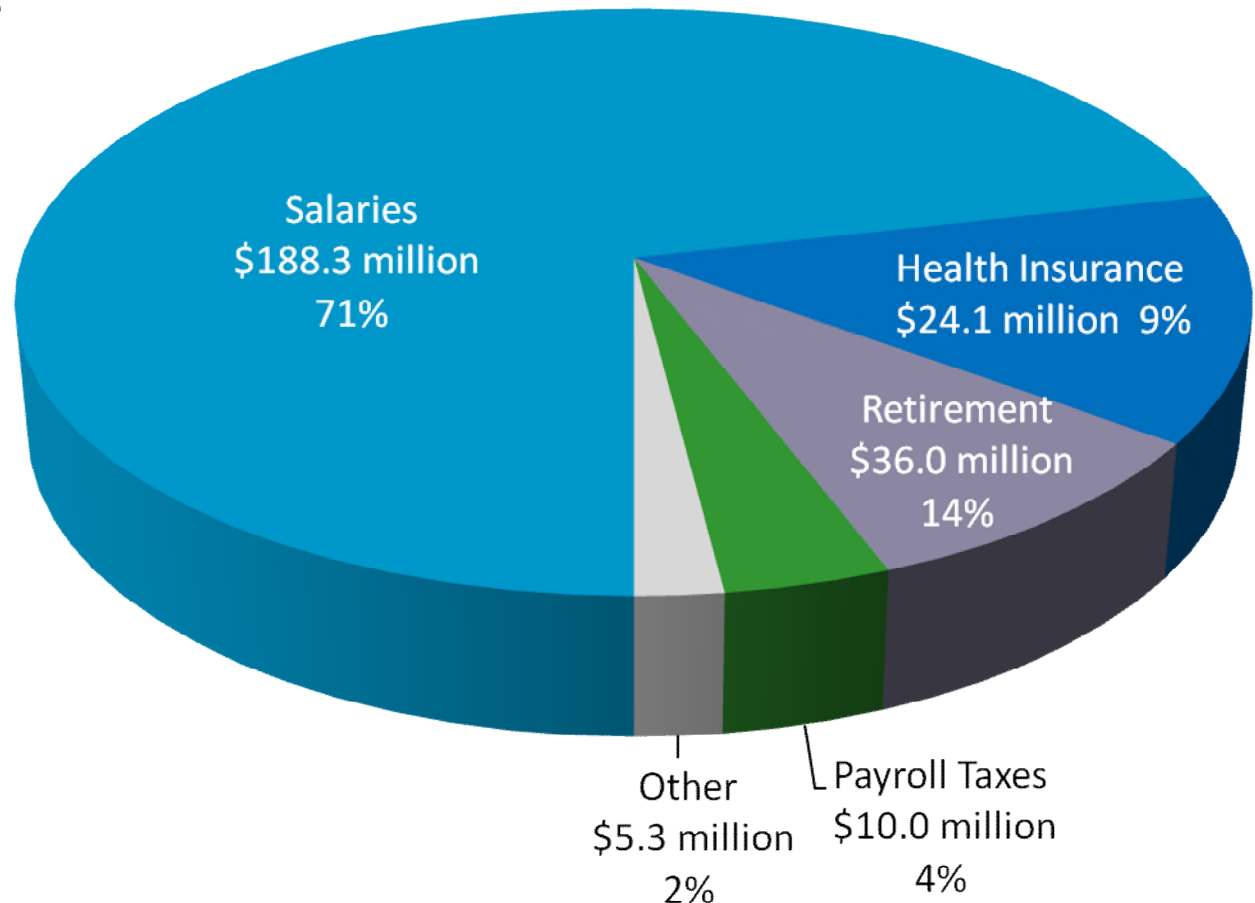
Total FY 2014 General Fund Budget = \$817,500,799



What is included in the personnel budget of \$263.7 million?

**FY 2014 General Fund Personnel Budget
=\$263.7 million**

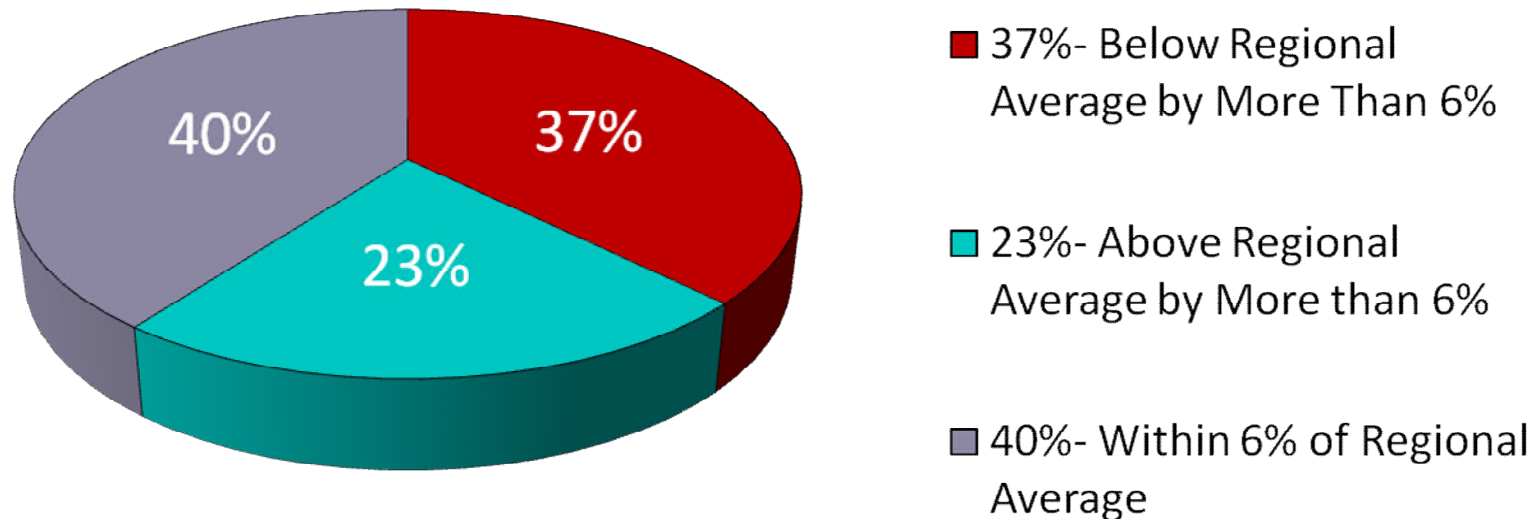
- ▶ Salaries (including overtime and special pay)
- ▶ City Retirement
- ▶ Health Insurance
- ▶ Employer Payroll Taxes (FICA, Medicare)
- ▶ Other (VRS, Group Life)



How do the city's salaries compare to the region?

- ▶ The Department of Human Resources annually compares Norfolk's Compensation Plan with other Hampton Roads cities

**FY 2013 Comparison of the
Minimum Salary for 254 Job Classifications**



How have general employee salaries increased over the years?

FY	1997	1998	1999	2000	2001	2002	2003	2004	2005
GW	2.0%	0.0%	2.0%	3.0%	2.5%	4.0% ¹	3.0%	1.5%	1.5%
STEP	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	0.0%	2.5%	2.5%
Total	4.5%	2.5%	4.5%	5.5%	5.0%	6.5%	3.0%	4.0%	4.0%

FY	2006	2007	2008	2009	2010	2011	2012	2013	2014
GW	1.5%	2.0%	2.0%	1.0%	0.0%	0.0%	0.0%	2.0%	2.0%
STEP	2.5%	2.5%	2.5%	2.5%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	4.0%	4.5%	4.5%	3.5%	0.0%	0.0%	0.0%	2.0%	2.0%

► **Classified employees received a salary increase of:**

- 26 percent between FY 1999 and FY 2004
- 22 percent between FY 2004 and FY 2009
- 4 percent between FY 2009 and FY 2014

¹ Four percent was the average increase for general employees from a compensation study

How have Norfolk's salary increases compared to the region?

City	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Norfolk	3.5%	0.0%	0.0%	0.0%¹	2.0%	2.0%
Chesapeake	3.0%	0.0%	1.5%	1.5%	0.0%	1.6%
Hampton	2.8%	0.0%	0.0%	0.0% ¹	0.0% ²	1.0%+ \$1,000 ²
Newport News	2.0%	0.0%	0.0% ¹	2.0%	1.5%	2.0%
Portsmouth	3.0%	0.0%	0.0%	2.0% ³	3.0% ³	3.0%
Suffolk	3.0%	0.0%	2.0% ³	0.0%	2.0%	0.0%
Virginia Beach	2.5%	0.0%	0.0%	2.5%	1% ⁴	1.66% ⁵

¹\$500 one-time bonus

²Up to \$1,000 pay for performance bonus

³Percent adjustment awarded in form of one-time bonus

⁴FY 2013 included 1% for all employees, with retirement non-contributors using their increase to offset VRS costs.

⁵FY 2014 includes a salary increase effective October 1, 2013

Note: Compensation increases offset by increased contribution requirements to VRS, general adjustments due to salary studies and actions to relieve compression are not included

What is the Step System?

- ▶ Pay structure which bases compensation on longevity
- ▶ At regular intervals, employees move up one step within their respective ranges
- ▶ Step-based pay system has been the compensation structure in Norfolk since at least 1958
- ▶ A common alternative to the step system is an Open Range System

What does compression mean?

- ▶ Compression is a salary inequity problem which typically occurs when an employee with less years of service makes the same or more than an employee with more years of service

Example of Compression			
Description	Hire Date	Experience	Salary
Police Officer A	07/01/2010	3 years	\$40,981
Police Officer B	06/01/2013	0 years	\$40,981

What do other Hampton Roads cities use as a pay structure?

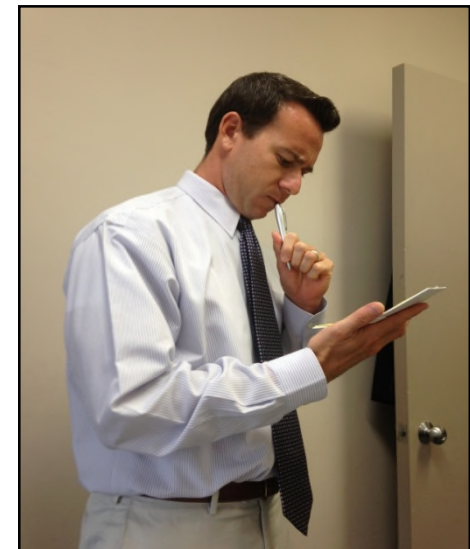
- ▶ Norfolk is only Hampton Roads city to use a Step System for general employees

Locality	General Employees	Sworn Officers
Chesapeake	Open Range	Step System
Hampton	Open Range	Open Range
Newport News	Open Range	Open Range
<u>Norfolk</u>	<u>Step System¹</u>	<u>Step System</u>
Portsmouth	Open Range	Step System
Suffolk	Open Range	Step System
Virginia Beach	Open Range	Open Range

¹Open Range is used for Council Appointees, Senior Management, Executives, and Law pay grades

Types of Pay Adjustments

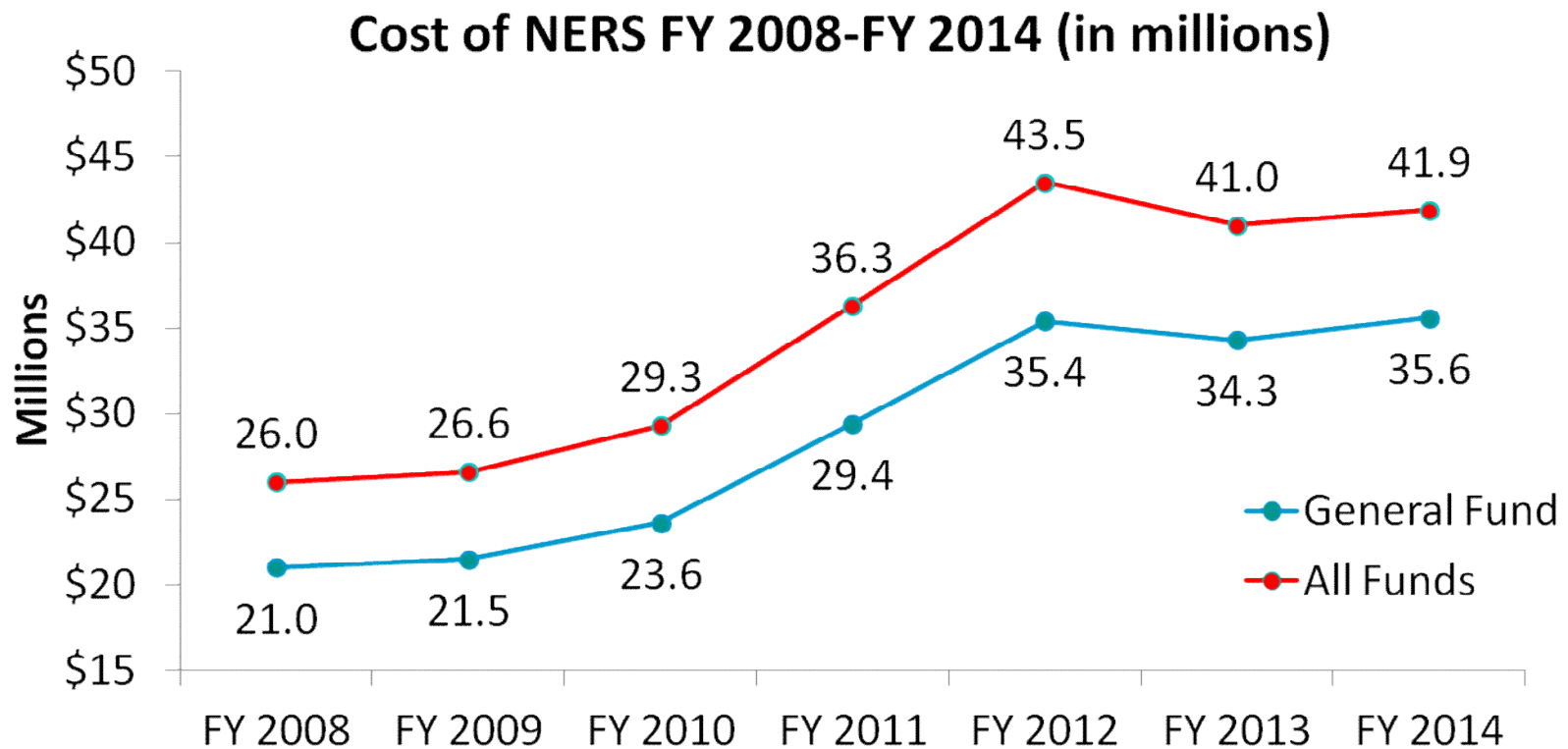
- ▶ General Wage Increase (GWI)
- ▶ Step Increase
- ▶ Merit/Pay for Performance
- ▶ Employee Bonus
- ▶ Salary Range Adjustment
- ▶ Administrative Adjustment



Compensation Initiatives that Impact Retirement

What is the Cost to the City of the Norfolk Employee's Retirement System (NERS)?

- ▶ The FY 2014 employer cost is \$41.9 million overall¹ (\$35.6 million General Fund)
- ▶ As of June 30, 2012, NERS was 80.7 percent funded



¹Cost of NERS does not include costs related to special revenue funds such as grants

How does NERS compare to VRS?

- ▶ For General Employees hired after October 2010:

Description	NERS	VRS
Employee Contribution	5 percent	5 percent
Pension Multiplier	1.75%	1.7% and 1.65% ¹
Average Final Compensation	Top 3 years	Top 5 years
Eligible Retirement Age	60 or 30 years	65 or 30 years
Cost of Living	Ad Hoc COLAs	Automatic COLAs
Amortization Schedule	20 years	30 years
Vesting Period	5 years	5 years

¹VRS employees earn 1.7% on service prior to January 1, 2013 and 1.65% on service earned after

What is the difference between a Defined Benefit and Defined Contribution Plan?

▶ Defined Benefit

- Annual pension determined by formula
- Annual benefit does not change due to interest or investment performance
- Greater risk to employer from investment underperformance

▶ Defined Contribution

- Annual benefit determined by value of actual contribution
- Benefit affected by interest and investment return on combined contributions
- Less risk to employer
- Average benefit to employee may be higher or lower

What is Five and Five Conversion?

- ▶ Employees hired after October 2010 contribute five percent
- ▶ Approximately 3,400 Employees hired before October 2010 do not contribute to NERS
- ▶ A conversion requires all employees to begin contributing five percent
- ▶ A comparable five percent salary increase is provided
 - Compensation increase equivalent to two steps and increases top annual salary for pension benefit calculation
- ▶ All VRS employees are required to contribute five percent

What is a Deferred Retirement Option Program (DROP)?

- ▶ A DROP is designed to encourage employees to remain in the workforce beyond their earliest retirement date
- ▶ Once an employee achieves full retirement benefit eligibility:
 - May voluntarily enter DROP for up to three years
 - Employee stops earning and paying retirement contributions
 - Retirement benefits begin and are credited each year in a separate account
 - The account is paid when the employee retires
- ▶ Being considered for Sworn personnel only
- ▶ Actuarial analysis is needed to determine the effect on NERS

Should a Voluntary Retirement Incentive Program (VRIP) be offered?

- ▶ A VRIP encourages employees to retire by offering a payout incentive
- ▶ Only employees eligible for normal retirement may participate
- ▶ 148 of 658 eligible employees elected to participate in the 2011 VRIP
 - Program provided approximately \$1.6 million in General Fund savings in FY 2012
 - Actuarial impact was estimated at \$7.8 million amortized over 20 years

What are the goals of the FY 2014 review of compensation?

- ▶ Compensation study to review salaries
- ▶ Consider implementing additional retirement programs (Five and Five, DROP, VRIP)
- ▶ Consider scenarios to alleviate compression
- ▶ Determine if the step system is appropriate
- ▶ Review of compensation for lowest paid employees
- ▶ Review the long-term sustainability of the current defined benefit pension structure
- ▶ Simplify the format of the current compensation plan